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UNCLAS SECTION 01 OF 03 RANGOON 000574

SIPDIS

SENSITIVE

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
USPACOM FOR FPA

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SUBJECT: ENERGY GIANTS FUND BURMESE MODEL VILLAGES

REF: RANGOON 71

1. (SBU) Summary: A visit to the Total/UNOCAL pipeline zone in Tanintharyi Division revealed an impressive level of socio-economic development. A lack of government interference, and the determination of well-funded corporate citizens to push the envelope, have allowed for decent living standards, comparative religious freedom, and the development of nascent democratic institutions. Considering these companies' ambitious and progressive policies, and the GOB's apathy toward funding basic services, the significant potential we witnessed would certainly dwindle if the firms left. End summary.

Unprecedented Independence

2. (SBU) COM, Pol Officer, Econ Officer, and PAO traveled with TotalFinaElf and UNOCAL (the "partners") representatives to the area surrounding their 63 km onshore gas pipeline in Burma's southernmost Tanintharyi Division. The partners have established a corridor around the pipeline encompassing 23 villages, the largest of which is Kanbauk, located about 150 miles as the crow flies southeast of Rangoon. Twenty of the villages are Burman majority, while the other three are Karen. The partners have been allowed unprecedented independence in providing and managing development funds, with \$1.2 million budgeted for 2003, for a total of \$10 million since the projects began in 1995, into these villages. This has led to an undeniably superior level of economic and social development in the pipeline zone compared to other villages in the area and elsewhere in Burma (even in other "model villages" assisted by NGO or UN entities). The whole zone had a strong, but positive, feel of a company town; organized, funded, and operated by the energy consortium.

3. (U) The partners do not rely on INGOs or the government to carry out their projects. Instead, they use their own local staff of 25 doctors, agronomists, safety experts, and teachers, as well as several dozen laborers for road maintenance.

4. (SBU) The partners claim that the government keeps a very light hand on the 23 villages under the partners' "protection," providing only security for the area. The military, which is the primary government entity in the area, allegedly leaves all of the economic enterprises alone and does not harass the schools or hospitals operated with the assistance of the partners. Rare abuses by individual soldiers are reported to the partners via elected village councils and a complaint is passed on to the regional commanders. According to Total, these few complaints have been resolved satisfactorily.

5. (SBU) Though there is no way to completely verify the predictably rosy claims of the partners, there is no question that the economic and social standards of living for residents of the pipeline zone appear comparatively high. Further circumstantial evidence of a light GOB presence: in our travels, we saw only one or two soldiers, one small army base in Kanbauk, and one small USDA office tucked behind a well-stocked general store in Kanbauk.

Economic Development: Opportunity and Access

6. (SBU) The partners' strategy for economic development in the pipeline zone has two elements: economic opportunity and infrastructure development. The partners have been allowed to carry out both with the explicit and implicit approval of the government, but apparently with no interference.

7. (U) The partners have provided numerous economic opportunities, mostly agricultural diversification and expansion projects. In one case, using an agronomist hired away from the Ministry of Forestry, the partners built a nursery to grow 30,000-40,000 indigenous seedlings per year (mostly cashews, but also a wide range of other cash crops, such as black pepper, lime, rambutan, and durian) for distribution to local farmers. Other economic development

projects include pig and chicken breeding centers (complete with veterinarian and vaccination program) and a large pineapple and rubber plantation within which farmers are given deeds to plots after a probationary period.

18. (SBU) On the infrastructure side the partners' achievements are remarkable. Without government interference, the partners have built a 63 km sealed road that tracks the pipeline (which is buried two meters underground). They have also constructed numerous all-season dirt roads that branch off the main road into the villages being served. We witnessed these roads being scrupulously maintained by staff and equipment provided by the partners.

19. (SBU) Socio-economic infrastructure is encouraged through education and health assistance, as well as a rare micro-credit program. The partners have been allowed to build and stock seven new clinics in various villages, and provide medicine, equipment, and personnel to the pre-existing government hospital in Kanbaw. Aside from offering free treatment to villagers, the clinics focus on childhood vaccinations, family planning, and testing for and treatment of malaria, TB, and other endemic diseases. Likewise, the partners have been allowed to build and renovate 44 schools, provide learning materials, computers, and supplement the meager income of the 250 local government teachers (thus discouraging the supplemental "tuition" classes that most public school teachers across the country operate). The partners have also been allowed to set up a private remedial tuition school aimed at those students who have failed their matriculation exams. This latter project is most notable as the government is traditionally very reluctant to allow new private schools, and very heavy-handed on those that are permitted to exist.

110. (U) Total's statistics show impressive results from these investments. In education, Total indicates an 18 percent increase in enrollment since the 2000-01 school year. In health, infant mortality is down 65 percent since 1997 (to a rate well below the national average), and mortality from malaria, water and foodborne diseases, and respiratory infections down 70 percent, 99 percent, and 90 percent respectively.

111. (SBU) The micro-credit program is another important success, as banking laws generally make such schemes illegal in Burma. Another exception is made for the UN, which carries out small micro-credit programs (using INGOs) in some areas in which it operates. The partners admitted that they'd never received explicit permission from the GOB to run this program; however, neither have government authorities interfered with the program (or tried to hijack funds) since its inception in 1997. According to Total statistics, in 2002 560 local people took loans (up to a maximum of \$500) worth 25.2 million kyat (roughly \$25,000 at current exchange rates). The loans, which an elected village committee of four people, mostly teachers, distributes, are for a 6-month term, with interest due for 5 months at 2 percent per month. Since 1997, according to Total, there have been no defaults.

112. (U) We saw one example of the micro-credit program at work. A small businessman in a Karen village was putting the finishing touches on a small cashew nut processing "factory." When completed, the factory will employ eight women and produce roughly 150 kg of shelled cashews per day. When producing at top capacity, the women will be paid about 1000-2000 kyat (\$1-\$2) per day, a very generous paycheck when the average factory laborer earns about 500-1000 kyat per day. More encouragingly, the owner had a rudimentary business plan, envisioning early sales to Dawei, the largest city nearby, and Kanbaw, then Rangoon, and hopefully someday for export over the nearby Thai border.

Free Religion and Democracy in Burma?

113. (SBU) The partners have also made surprising progress encouraging and developing democratic and religious institutions in the pipeline zone. In one of the Karen villages, the partners funded the reconstruction of the village's 40-year old Baptist church. The partners have built or renovated four other churches as well as two Buddhist pagodas. Under the current regime, renovation or construction of new non-Buddhist religious buildings is not generally allowed; a complaint we've heard loud and clear from the Christian community and one that resonates in Burma's annual religious freedom report.

114. (SBU) The pipeline zone villages are also nurturing very primitive democratic institutions, again seemingly without government opposition. The partners have worked with each village to establish elected "Village Communication Committees" (VCC) that liaise between the residents and the partners' local representatives. Though some of these Committees include the government's village Peace and Development Council designate, Total claims that these bodies operate freely and complain readily if there is government malfeasance. As noted earlier, there is also a democratic

element to the micro-credit program, which is run by a committee of four people, elected each year by the various VCCs. Again, though this committee's membership is often mostly teachers (government employees), Total asserted that funds are not misdirected or misused.

Little Things Mean A Lot, If the Environment is Ripe

15. (SBU) At first glance, there are two key reasons for the success of the pipeline zone. First, the partners' programs can focus on the whole development picture, not just offering assistance but ensuring that locals have access to it. We've seen other similar economic development projects founder because of access problems. Second, the partners, though consulting with GOB officials as necessary, are able to independently manage their ambitious and aggressive programming.

16. (SBU) Another lesson learned is the ability, if there is a receptive environment, to do much with little in a country as starved for everything as Burma. We define "receptive environment" as one which allows adequate political and managerial freedom by the implementing organization, and which has adequate transportation infrastructure. If such an environment exists, \$1 million-\$2 million spread annually over a broad range of activities can have impressive success in improving living standards. Without such an environment a program ten times as large will have only half the impact. Unfortunately at this time, as we've reported (see reftel), the poor environment for aid in most of the country makes successes like UNOCAL-Total's a rarity.

17. (SBU) One problem with the overall strategy is that much of it is not self-sustaining. The extant small businesses and agricultural and breeding projects already underway would presumably continue to some degree. However, the health clinics, schools, roads, livestock care, and micro-credit programs would likely deteriorate without the annual cash infusions from outside. The partners are acting as a surrogate, and seemingly beneficent, government, so unless the GOB decides to start funding basic services and infrastructure (unlikely in the visible future), this is a problem if Total and/or UNOCAL pull out of Burma. Should this occur, unless their successors have the same pressure from stockholders and human rights groups to "do the right thing," the projects and programs funded by the partners might dissipate.

Martinez